



**RELEASE 8  
2009**

**THE ROLE OF THE  
ACCOUNTING STANDARDS REVIEW BOARD  
AND THE NATURE OF APPROVED  
FINANCIAL REPORTING STANDARDS**

*Issued by the Accounting Standards Review Board*

**INTRODUCTION**

The Accounting Standards Review Board (the “Board”) was established by section 22 of the Financial Reporting Act 1993 (the “Act”).

The purpose of this Release is to outline the Board's functions, the nature of approved financial reporting standards, the Board's expectations as to the content of financial reporting standards, and the criteria the Board employs in evaluating proposed financial reporting standards and amendments to approved financial reporting standards which are submitted to it for approval in accordance with the Act. The Board is intended to serve a key role in the achievement of a fundamental purpose of the Act, which is to maintain the quality of financial reporting in New Zealand.

In this Release:

- A reference to a “section” is to a section of the Act unless otherwise stated;
- A reference to a “paragraph” is to a paragraph of this Release;
- The terms “reporting entity”, “group” and “accounting period” have the respective meanings given in section 2 of the Act;
- The terms “local authority” and “council controlled organisation” have the meaning given in the Local Government Act 2002;
- The term “state sector bodies” means the Government Reporting Entity and all Departments and Offices of Parliament, as respectively defined in the Public Finance Act 1989, and Crown entities, as defined in the Crown Entities Act 2004, and ;
- Other terms used, which are defined in the Act, have the same meaning.

This Release has been updated in August 2009 to reflect changes in the Board's powers and in other legislation and to reflect progress in the transition to New Zealand Equivalents to International Financial Reporting Standards.

The Board will subject this Release to regular review and therefore as change takes place in the legal, economic, institutional, or other dimensions of standard setting, the Board will revise and reissue the Release.



## **ROLE OF THE BOARD**

- 1 The primary role of the Board is to review and, if it thinks fit, approve financial reporting standards which are submitted to it, for application to the financial statements required to be prepared by reporting entities, groups, local authorities, council controlled organisations, state sector bodies and other entities in accordance with the Act, the Local Government Act 2002, the Public Finance Act 1989, the Crown Entities Act 2004 or any other enactment that requires a person to comply with the Act as if that person were a reporting entity.
- 2 The specific functions of the Board (as set out in section 24) are to:
  - Review and approve financial reporting standards and amendments to approved financial reporting standards;
  - Make recommendations in relation to the submission to it for approval of financial reporting standards or amendments to financial reporting standards;
  - Give directions as to the accounting policies that have authoritative support within the accounting profession in New Zealand;
  - Encourage the development of financial reporting standards, including financial reporting standards for different classes of reporting entity;
  - Grant exemptions under section 29A<sup>1</sup>; and
  - Liaise with the Australian Accounting Standards Board (“AASB”) with a view to harmonising New Zealand and Australian financial reporting standards.
- 3 The Board has such powers as are reasonably necessary to enable it to carry out its functions and is entitled to consult such persons or organisations as it thinks fit (section 30).

## **REQUIREMENTS FOR FINANCIAL STATEMENTS**

- 4 Financial reporting standards establish requirements for recognising, measuring and disclosing transactions and other events in general purpose financial reports.
- 5 A reporting entity is required by the Act (sections 10, 11, 13 and 14) to prepare financial statements and, where applicable, group financial statements that comply with “generally accepted accounting practice”. That term is defined by section 3 to mean compliance with:
  - Applicable financial reporting standards; and
  - Where there is no applicable financial reporting standard or rule of law, accounting policies that are appropriate to the circumstances of the reporting entity and have authoritative support within the accounting profession in New Zealand.

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<sup>1</sup> At the time of publication this function had not yet been brought into force.



- 6 In the case of state sector bodies, local authorities and council controlled organisations, the term “generally accepted accounting practice” means:
- Approved financial reporting standards, so far as those standards apply to the state sector body, local authority or council controlled organisation; and
  - In relation to matters for which no provision is made in approved financial reporting standards and that are not subject to any applicable rule of law, accounting policies that are appropriate in relation to the state sector body, local authority or council controlled organisation and have authoritative support within the accounting profession in New Zealand.
- 7 The Board is empowered to give directions as to accounting policies that have authoritative support within the accounting profession in New Zealand.
- 8 The Act also requires that the financial statements of a reporting entity or group give a “true and fair view” of the entity's or group's financial performance, financial position and (where required) cash flows (sections 11 and 14). State sector bodies and local authorities are required to prepare statements that “fairly reflect” their financial position and financial and non-financial performance. The *New Zealand Preface* issued by the Financial Reporting Standards Board (the “FRSB”) of the New Zealand Institute of Chartered Accountants (the “Institute”) expresses the opinion that the terms “fair presentation” and “fairly reflect” have the same meaning as “true and fair view”<sup>2</sup>.
- 9 The Board urges reporting entities to recognise and comply with the spirit and purpose of generally accepted accounting practice and not solely the letter of approved financial reporting standards.
- 10 The Board advises that financial reporting standards use the commonly accepted generic accounting term “entity” to mean any body which is required to prepare general purpose financial reports although in the Act the term is more narrowly defined to mean only a company (including an exempt company) or an issuer. The Board accordingly emphasises that all users and preparers of financial reporting standards should be aware that the term “entity” currently has a meaning in financial reporting standards different from the meaning in the Act.

#### **APPLICATION OF APPROVED STANDARDS**

- 11 A financial reporting standard approved by the Board, which is defined by the Act as an “approved financial reporting standard” (section 2), will normally be expressed to apply in relation to all reporting entities and groups, state sector bodies, local authorities and council controlled organisations (section 27(1)) but the Board may limit the classes or range of entities to which any particular standard or part thereof will apply.

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<sup>2</sup> Paragraph 8 of the New Zealand Preface.



- 12 The Board may also make a determination extending the classes or range of persons to whom a particular financial reporting standard applies or revoking the application of a particular standard to a specified person or category of persons (referred to in this Release as a “determination”) (section 27(3A)).
- 13 When approving a standard or amendment, or making a determination, the Board will specify the accounting periods in respect of which the standard, amendment or determination will commence to apply. These may be accounting periods that have commenced before the date on which the standard, amendment or determination is to take effect, but not accounting periods that have ended before that date (section 27(6)). Where an approved standard applies to a reporting entity or group in respect of a particular accounting period, it is defined by the Act to be an “applicable financial reporting standard” (section 2).
- 14 Where a financial reporting standard or an amendment to an approved financial reporting standard is submitted to and approved by the Board, or a determination is made by the Board, the Board must give notice thereof in the *Gazette* and in such publications as it considers appropriate and the standard, amendment or determination takes effect on the 28th day after notification thereof in the *Gazette* (section 27(5)).
- 15 The approval by the Board of a standard or amendment, or the revocation of an approved standard, is subject to the Regulations (Disallowance) Act 1989 as though the giving or revocation of the approval is the making of a statutory regulation (section 33). The approval or regulation must therefore be laid before the House of Representatives, and may be disallowed by resolution of the House, within the respective time periods specified in that Act.

#### **PROCEDURES FOR DEVELOPMENT OF STANDARDS**

- 16 Financial reporting standards and amendments to approved financial reporting standards may be submitted to the Board by the Institute or any other organisation or person, for approval or a direction on authoritative support (sections 24(d) and 25).
- 17 The Board may not approve a financial reporting standard or a proposed amendment unless the Board is satisfied that the organisation submitting it has taken reasonable steps to consult with persons or organisations who would be likely to be affected by the standard (section 26).
- 18 There are no prescribed procedures or requirements for submissions, but the Board is willing, if requested, to advise any person or body on appropriate procedures to be followed in respect of a proposed submission.
- 19 As it is anticipated that most financial reporting standards will be developed by the FRSB of the Institute, the Board has agreed with the FRSB certain procedures for the development of financial reporting standards and submission of them to the Board for approval under the Act. These procedures are set out in paragraphs 28 – 32. The Board expects that any other person or body wishing to submit a financial reporting standard to the Board for approval would follow similar procedures and also request the views of the FRSB on the proposed standard.



## ADOPTION OF IFRSs

- 20 The Board is strongly committed to the international convergence and international harmonisation of financial reporting standards, in particular with Australia. This commitment manifests in the Board's support for the FRSB's involvement with both the International Accounting Standards Board ("IASB") and International Public Sector Accounting Standards Board ("IPSASB") and the Board's decision to adopt International Financial Reporting Standards ("IFRSs"). Furthermore a series of cross-appointments between New Zealand and Australian bodies are an important aspect of harmonisation with Australia. The Chairman of the Australian Financial Reporting Council is a member of the Board and the Board's Chairman is a member of the Financial Reporting Council.
- 21 The Board announced in December 2002 that it had decided that New Zealand entities would be required to apply IFRSs<sup>3</sup>, issued by the IASB, for periods commencing on or after 1 January 2007, but would have the option to adopt for periods commencing on or after 1 January 2005.
- 22 The Board approved the New Zealand equivalents to IFRSs for application by entities from their first annual reporting period (or interim period forming part of that annual period) commencing on or after 1 January 2007.
- 23 Entities adopting New Zealand equivalents to IFRSs apply the New Zealand equivalents to IFRSs on issue and in effect at the date of adoption, but until then apply the existing approved New Zealand Financial Reporting Standards ("FRS"). In September 2007 the Board decided that entities which met certain criteria (including that they are not issuers or large as defined by the Act) would be permitted to continue to apply the existing FRSs pending the government's review of financial reporting requirements for small and medium-sized entities. This delay in the mandatory adoption of New Zealand equivalents to IFRSs is described in the Board's Release 9 *Delay of the Mandatory Adoption of New Zealand Equivalents to International Financial Reporting Standards for Certain Small Entities*.
- 24 Before the adoption of IFRSs, the existing FRSs were sector-neutral standards in that they applied equally to entities in all sectors. The Board decided that with adoption of IFRSs there should continue to be one set of standards for application by all entities. However, IFRSs are developed for application by profit-oriented entities and, therefore, in order for IFRSs also to be applied by public benefit entities<sup>4</sup> it is necessary in the case of some of the IFRSs to modify or introduce additional requirements on measurement and recognition applicable to public benefit entities. Furthermore, it may be appropriate to

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<sup>3</sup> The term IFRS is used in this Release to refer to the International Accounting Standards Board's standards and interpretations and the *Framework for the Preparation and Presentation of Financial Statements*. As a collective set IFRS, the International equivalent of NZ GAAP, comprises the Standards (IASs) and Interpretations (SICs) adopted by the IASB and the standards (IFRSs) and Interpretations (IFRICs) issued by the IASB. Under the IFRS framework standards and interpretations have equal weighting.

<sup>4</sup> Public benefit entities are described as entities whose primary objective is to provide goods or services for a community or a social benefit and where any risk capital has been provided with a view to supporting that primary objective rather than for the financial return to equity shareholders. Most central government, local government, and not-for-profit entities are public benefit entities.



modify or add disclosure requirements, and any additional disclosure requirements could in some cases be applicable to all entities. In most cases, the intended overall effect of modifying or introducing additional requirements for public benefit entities should be to reflect differences between the sectors, including differences in user information needs, that warrant a different accounting treatment or additional guidance for public benefit entities. Occasionally, it may also be appropriate to modify an IFRS for public benefit entities and/or introduce additional requirements for other reasons. In reaching a view on the appropriateness of modifications made or guidance added, the Board will be mindful of the approach adopted by the AASB and the IPSASB. The Board has agreed with the FRSB that the process to be followed in determining whether to modify IFRSs for public benefit entities will be documented.

- 25 The Board has decided that the following guidelines should be observed in adapting an IFRS for issue as a New Zealand equivalent to an IFRS, excluding any differential reporting considerations:
- a. Recognition and measurement requirements in an IFRS cannot be amended for profit-oriented entities;
  - b. Recognition and measurement requirements can be amended for public benefit entities;
  - c. Guidance materials may be added in relation to 'b' above;
  - d. The IFRS disclosure requirements cannot be reduced for profit-oriented entities;
  - e. Additional disclosure requirements can be added for all entities; and
  - f. Where an IFRS contains alternative permissible treatments the Board may agree that only one option can be applied to be able to comply with New Zealand GAAP. In reaching a view on this issue the Board will be mindful of the approach adopted by the AASB and IPSASB, may reach different conclusions for profit-oriented entities as compared to public benefit entities and may add options for public benefit entities.
- 26 Where New Zealand equivalent standards contain any additional requirements for the purposes of meeting New Zealand GAAP these shall be clearly identifiable within the text and distinguishable from the IFRS on which the New Zealand equivalent has been based.
- 27 Where a profit-oriented entity prepares its financial report in compliance with New Zealand equivalents to IFRSs, the financial statements will also comply with IFRSs. However, where a public benefit entity prepares its financial report in compliance with New Zealand equivalents to IFRSs it will typically not be appropriate to assert compliance with IFRSs. First, the public benefit entity may have transactions for which the recognition and measurement requirements in a New Zealand equivalent differ from those in the IFRS on which it is based. Second, the entity may elect to take advantage of disclosure concessions provided to public benefit entities by the New Zealand equivalent to an IFRS. In both circumstances the entity will be unlikely to be able to assert compliance with IFRSs.



## PROCEDURES AGREED WITH THE FRSB

- 28 The FRSB will conduct due process in respect of all financial reporting standards (including NZ IFRSs) submitted to the Board for approval. The procedures described below will be followed except that, in consultation with the Board, they may be varied in circumstances such as :
- When greater urgency is necessary to maintain the ability of New Zealand profit-oriented entities to claim compliance with IFRSs or take advantage of options in IFRSs; and
  - When amendments to financial reporting standards are minor in nature.
- 29 To determine the views of constituents on a proposed IFRS and on the need for, and content of, any additional or different requirements, the FRSB will review each proposed IFRS (or amendment to an existing IFRS) and prepare an exposure draft (“ED”) of each proposed New Zealand equivalent to IFRSs for comment. The ED will contain the proposed IFRS (or amendment to an existing IFRS) and clearly highlight additional or different requirements (if any). An accompanying discussion paper will provide a summary comparison of the IFRS and any corresponding requirements under existing NZ IFRS and also discuss any reporting issues on which the FRSB has communicated to the IASB requesting revision of the requirements relating to those issues.
- 30 The FRSB will give notice in the New Zealand Chartered Accountants Journal and email advice to identified interested parties of the issue of the exposure draft and publish a copy on the Institute’s website. Where appropriate, forums might be staged or other arrangements made to enable further discussion and exchange of opinion. EDs based on proposed IFRSs (or amendments to existing IFRSs) will be open for the maximum possible exposure period having regard to the IASB’s period for comments and the need for the FRSB to take account of the comments of New Zealand constituents in its submissions to the IASB. Other EDs will be open for at least a three month comment period. The FRSB will request comment on (i) the proposed additional or different requirements, if any, and also on the need for any further modifications (making particular reference to public benefit entities), (ii) any regulatory issues or other factors specific to the New Zealand economic and legal environment that could affect implementation of the IFRS, and (iii) issues relating to the Privacy Act 1993. Interested parties will have the opportunity to make comments to both the IASB and FRSB on the IASB’s draft and to the FRSB on the proposed additional requirements and other matters.
- 31 All the submissions received on an ED must be considered by the FRSB. Any proposed New Zealand equivalent to an IFRS (or amendment to an existing New Zealand equivalent) is then to be submitted to the Board for approval. The draft standard must be accompanied by a report on the consultation process undertaken and a summary of all significant issues raised in the submissions received and how they have been resolved. The report should also include where appropriate, an impact analysis and assessment of the anticipated effects of the standard on the financial statements of specified entities in New Zealand, including costs and benefits. The Board acknowledges that the



background material prepared by the FRSB in support of the proposed standards contains background material which could be valuable to users when considering the implications of the new standards in their circumstances. Accordingly, the Board supports the FRSB making such background material available as a public document if it chooses.

- 32 Where the FRSB develops a standard based on an International Public Sector Accounting Standard or develops a local standard, it should follow the process as outlined in paragraphs 29 to 31 modified only to the extent necessary to recognise the different circumstances.

### **CONSIDERATION OF STANDARDS BY THE BOARD**

- 33 In considering a financial reporting standard submitted for approval, the Board will follow the guidelines set out in paragraphs 34 - 38.
- 34 To ensure that there is consistency between all approved New Zealand equivalents to IFRSs, the Board will expect the FRSB to consider whether each standard is consistent with the *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements ("N Z Framework")* issued by the Institute. If the contents of any proposed standard are in conflict with the *N Z Framework*, the reason for each departure must be explained.
- 35 The Board expects consistency where possible, both between approved financial reporting standards and between those standards and the law. Hence it will wish to be satisfied that, overall, the information which will result from the application of the standard will fulfil the qualitative characteristics of understandability, relevance, reliability and comparability.
- 36 The Board is required to liaise with the AASB with a view to harmonising New Zealand and Australian financial reporting standards. Australia has also adopted IFRSs and the AASB has a parallel policy to New Zealand on adapting IFRSs for issue as equivalent local standards. Therefore, while the Board will expect the FRSB to have regard to the AASB adaptation of an IFRS and signal to the Board any material differences, in most cases the required harmonisation will tend to follow simply as the result of the respective policies on adoption of IFRSs. In cases where a proposed New Zealand Standard follows the equivalent IFRS, but for some reason creates an inconsistency with the position taken by Australia, the Board is of the view that the position of the IASB will take precedence. In such rare instances, the FRSB should present to the Board a paper outlining, if any, the impact of following the IASB position.
- 37 The Board will require to be satisfied that reasonable steps have been taken by the person or organisation submitting the standard to consult with persons or organisations likely to be affected by the proposed standard, or representatives of such persons or organisations, and will, if it thinks fit, consult with any such person or organisation itself.





- 38 The Board will expect to be satisfied that each proposed standard is likely to achieve its objectives and that the advantages of the standard are sufficient to justify its approval by the Board. However, in making this assessment in respect of New Zealand equivalents to IFRSs, the Board is aware that the decision to adopt IFRSs is a commitment to a set of standards and that failure to adopt any particular standard or amendment of a recognition or measurement requirement or removal of a disclosure requirement would remove the ability of profit-oriented entities in New Zealand to claim compliance with IFRSs.

#### **FORMAT OF STANDARDS**

- 39 New Zealand equivalents to IFRSs will follow the format of IFRSs with the introduction of additional material, if any.
- 40 New Zealand equivalents to IFRSs will cross reference other New Zealand equivalents to IFRSs (rather than IFRSs) and will state an application date as determined by the Board.
- 41 A statement that a standard has been approved by the Board under the Act and that the standard is a regulation for the purpose of the Regulations (Disallowance) Act 1989 should be recorded on the face of the document.

#### **REVIEW AND REVISION OF APPROVED STANDARDS**

- 42 The Board expects that the FRSB will submit for approval New Zealand equivalents to IFRSs as they are revised by the IASB and new standards as they are developed. A review of an approved standard that will potentially result in a significant revision will be expected by the Board to be progressed in accordance with the procedures outlined in this Release. However, a review that is expected to result in only minor amendment to an approved standard may be progressed using only some of those procedures and the period before its date of application may thus be shorter. Similar principles should guide the review and revision of standards which are not based on IFRSs.

***Kevin J Simpkins***  
**Chairman**  
**Accounting Standards Review Board**  
**August 2009**